Sprint
Together with NEXTEL

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May 12, 2008

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A235
Washington, D.C. 20554

Re: WC Docket No. 05-337; CC Docket No. 96-45

Dear Ms. Dortch:

Sprint Nextel here submits a new proposal that comprehensively addresses the concerns about the federal universal service high cost support programs raised by the Federal Communications Commission (Commission or FCC), the Federal State Joint Board on Universal Service (Joint Board), and many of the commenters in the above-referenced dockets. The four-step high cost support plan (HCS Plan) described in the attached paper and its supporting exhibits offers a means of reducing the current unsustainable level of high cost support, while providing the support necessary to achieve universal service where it is most needed. In addition, the HCS Plan is competitively and technologically neutral, and advances the Commission's goal of promoting competition in the marketplace. It deserves full consideration by the FCC, the Joint Board and other parties in this proceeding.

Telecommunications carriers will contribute $4.622 billion annually to the USF for high cost support based on USAC Second Quarter 2008 projections. As described in the accompanying paper and its exhibits, using these projections, the HCS Plan reduces high cost support by over $3 billion annually, or by 68%. This translates into a reduction of the Contribution Factor from 11.3% to 6.0%. These reductions are shared equitably among all carriers currently receiving support. Specifically, of this total amount, high cost support portable to CETCs falls by $1.291 billion, or by 85%. The share of the remaining $1.491 billion high cost support directed to small rural ILECs is $1.213 billion, an increase from 41% to 81% of all high cost support. Thus, small rural carriers can ensure their customers continue to receive the reasonably comparable service required under the Act.

Furthermore, under the HCS Plan ILECs are provided with the ability to replace much of the high cost support with new service revenue obtained by increasing in modest increments the federal cap on subscriber line charges, as the industry transitions from burdensome and unsustainable subsidy growth toward a more realistic balance between universal service support and promoting competition. The effects on consumers from an increased SLC would be offset by reductions on consumer bills of pass-through federal universal service charges resulting from fund contributions, and by additional protection for low income consumers.

The HCS Plan works largely within current FCC rules and can easily be administered. It has three essential components that are phased in over four steps. The first component is an increase in SLC caps for all ILECs, and a reduction in ILECs' high cost support by an amount equal to the additional revenues obtainable under the increased caps. The second component involves a re-calculation of the required contributions to the HCLS and LSS funds through consolidating study areas of holding companies with more than one million ILEC lines initially at the state level and later companywide. The third component of the HCS Plan, implemented in the last step of the Plan, caps or ends all high cost support in a study area depending upon the level of CETC penetration.

Sprint Nextel respectfully submits this proposal and asks the FCC to give it due consideration. The Commission will find that the HCS Plan controls growth and achieves substantial reductions in high cost support and carrier USF contributions; it preserves necessary support where it is needed most; it is equitable and technologically neutral; and it is practical and easy to administer. Please do not hesitate to call me if you have any questions regarding the HCS Plan.

Sincerely,

Anthony M. Alessi
Senior Counsel

Enclosure

cc: The Honorable Kevin Martin
The Honorable Michael Copps
The Honorable Deborah Taylor Tate
The Honorable Jonathan Adelstein
The Honorable Robert McDowell
Dan Gonzalez
Amy Bender
Scott Bergmann
Scott M. Deutchman
John Hunter
Chris Moore
Dana Shaffer
Jeremy Marcus
Jennifer McKee
Tom Buckley

Universal Service Reform

High Cost Support Four-Step Plan

Sprint Nextel
May 12, 2008

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Universal Service Reform

High Cost Support Four-Step Plan

I. Executive Summary

There is widespread agreement among government, industry and consumer interests that the federal universal service high cost support programs need reform. The dramatic growth of high cost support attributable to the demands of different wireline and wireless carriers within the industry has placed universal service high cost funding at risk and further threatens to undermine efforts to address other critical issues necessary to meet the pro-competitive policy goals of the Telecommunications Act of 1996 (the Act). The High Cost Support Four-Step Plan (HCS Plan) described below will enable the Federal Communications Commission (FCC or Commission) and the Federal State Joint Board on Universal Service (Joint Board) to revise high cost support programs consistent with the Act's principles that universal service high cost support be specific, predictable, and sufficient to ensure affordable service in high-cost rural areas, while keeping the overall size of the fund reasonable and promoting competition.

The HCS Plan is comprehensive, workable, and capable of near term implementation. It can accomplish comprehensive reform by equitably returning high cost support programs to reasonable and sufficient levels for all industry segments while continuing to meet the universal service needs for high cost support without sacrificing potential development of competition in high cost areas. It is both workable and capable of near term implementation because it accomplishes reform without administrative complexity or a lengthy process of creating new or extensively revising current FCC rules governing universal service.

More specifically, the HCS Plan as described below and supported by the accompanying Exhibits show that reform would be accomplished (1) by equitably reducing over a reasonable four-step transition period the cost of universal service high cost support by approximately $3.1 billion with savings for the public in universal service surcharge reductions; (2) by allowing (but not requiring) incumbent local exchange carriers (ILECs) to recover additional local loop-related non-traffic sensitive (NTS) costs under modified FCC rules by raising the federal subscriber line charge (SLC) cap in increments during the first three steps of the HCS Plan for the first time since the last series of SLC cap increases was completed in 2003; (3) by lowering high cost support payments to competitive eligible telecommunications carriers (CETCs) in parity with ILEC high cost support reductions by operation of the identical support rule; (4) by applying the same standard to CETCs as now applied to ILECs for eligibility to receive universal service high cost local switching support; (5) by consolidating study areas of larger ILEC holding companies for purposes of calculating support under the applicable high cost support formulas in recognition of the operating efficiencies these companies achieve; and (6) in the final step of the

HCS Plan, by capping or ending high cost support in study areas where the presence of multiple service providers is sufficient to ensure affordable, high quality service to the public.[1]

In brief, the HCS Plan effectively promotes the Act's dual policy goals of universal service and competition; it is straightforward in concept and practical in operation; it fits well within existing regulatory and administrative frameworks; it transitions away from high cost subsidy in favor of other more pro-competitive forms of cost recovery; it is competitively and technologically neutral and fair to all industry segments; and, it can be put into effect promptly.

II. The HCS Four-Step Plan

Federal universal service high cost support is distributed through seven separate funds. These funds are: High Cost Model Support (HCMS); High Cost Loop Support (HCLS); Safety Net Additive Support (SNA); Safety Valve Support (SV); Interstate Access Support (IAS); Local Switching Support (LSS); and Interstate Common Line Support (ICLS).[2] The Universal Service Administrative Company (USAC) administers these high cost support funds through funding mechanisms codified in Parts 36 and 54 of the Commission's Rules.[3] Exhibit 1 identifies the seven high cost support funds and provides data showing the effects of the HCS Plan. As shown, the HCS Plan operationally in the first three steps affects the five major funds, which are HCMS, HCLS, IAS, LSS and ICLS. The reductions in high cost support payments to ILECs from each of these five funds under the HCS Plan will also result in reduced payments to CETCs by operation of the identical support rule, which gives a CETC the same per-line support received by the ILEC in the study area in which the CETC has a customer.

The HCS Plan has three key operational components that are phased in over four steps. The first component increases SLC caps for all ILECs over the first three steps and reduces an ILEC's high cost support by an amount equal to the additional revenues obtainable under the increased caps. When implementing this component, potential SLC revenues are measured companywide for large ILEC holding companies. The second component calculates the HCLS and LSS

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[1] Considering the growth of the Universal Service Fund (USF) attributable to increased amounts of high cost subsidies, the FCC has recently imposed an interim cap on CETC support. *See In re High-Cost Universal Service Support,* WC Docket No. 05-337, FCC 08-122 (rel. May 1, 2008). It is disappointing that a more comprehensive, practical, and equitable approach was not found to address the growth of USF before targeting wireless carriers with a cap. The HCS Plan offers the FCC and the Joint Board an opportunity to promptly rectify this interim decision. The HCS Plan can be overlaid and supplant the interim CETC cap because Step 1 of the HCS Plan would reduce CETC portable support below interim capped levels.

[2] A concise and helpful description of these funds and their origin can be found in the report by the Congressional Budget Office, *Factors that May Increase Future Spending from the Universal Service Fund,* Chapter 2 (June 2006).

[3] 47 C.F.R. Parts 36 & 54.

components of high cost support by consolidating study areas of holding companies with more than one million ILEC lines initially at the state level, and later, companywide. The third component of the HCS Plan, implemented in Step 4, caps or ends all high cost support in a study area depending upon the CETC penetration serving the study area customer base. This final step of the HCS Plan ensures against the problem of unsustainable subsidy growth reappearing and provides a balanced approach to addressing the needs of universal service high cost support and promoting the growth and benefits of competition in high cost areas. Exhibit 2 provides a summary and matrix of the HCS Four-Step Plan.

Using the USAC Second Quarter 2008 fund size projections as a base, implementation of the first three steps of the HCS Plan would reduce high cost support by about 47% or $2.177 billion annually. After the fourth step, total annual reductions would be $3.131 billion in high cost support. Consistent with Commission policy favoring support to small rural ILECs, the HCS Plan preserves most of the high cost support this group receives and affords small ILECs the opportunity to replace all Step 1, 2 and 3 reductions in their high cost support with revenue obtained from their own end users. Accordingly, after the fourth step, the percentage of high cost support that is directed to small rural ILECs would increase substantially, from 41% to 81%. See Exhibit 1.

A. Lowering High Cost Support and Raising SLC Caps

The HCS Plan reflects the deeply rooted historical connection between universal service high cost support and federal subscriber line charges. The Commission has long preferred SLCs as the means for ILECs to recover local loop-related NTS costs. Furthermore, there has always been a close relationship between the limitations imposed on cost recovery by SLC caps and the explicit subsidies available through the various high cost support mechanisms. For example, the two most recently created high cost support funds – the ICLS and the IAS – were established to balance universal service high cost support through fund subsidies and recovery of local loop-related NTS costs through SLCs. [4] Therefore, inasmuch as high cost support funding has

[4] The Commission has expressly tied end user common line charges or SLCs to high cost support programs. When the Commission eliminated carrier common line (CCL) access charges, it raised SLC caps and provided IAS to price cap ILECs and ICLS to rate of return ILECs as replacement for the portion of CCL revenue that ILECs were unable to recover by raising SLCs to new cap levels. The Commission additionally ruled that "Interstate Common Line Support will be recalculated every year, and a carrier's support level will increase only if its common line costs grow faster than its ability to recover such costs through the SLC." *See In re Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, 15 F.C.C.R. 19613, ¶. 133 (2001) (MAG Order). The FCC identified a similar connection between the IAS and SLCs. *See*

increased dramatically while SLC caps have not been revised for five years, it is fully consistent with FCC policy and precedent to allow ILECs to increase their SLC revenues to more fully cover the cost of the subscriber loop or common line, and to draw down high cost support. Under the HCS Plan high cost support is replaced by available SLC revenues for all companies in the following sequence: HCMS, IAS, ICLS, and then HCLS. [5]

The monthly SLC for residential and single-line business users has been capped by Commission rule at $6.50 since 2003. The HCS Plan would raise residential and single-line business monthly SLC caps by $3.50, incrementally in three steps of $1.50, $1.00, and $1.00.[6] Reducing HCS by amounts equal to the added revenue ILECs could obtain by increasing SLCs up to the levels permitted by the new caps would translate into smaller, yet sufficient and sustainable, high cost support funding programs.

As stated, the HCS Plan reduces high cost support distributions in amounts equal to the revenues available by increasing SLCs from current levels up to the new SLC caps. For the largest ILECs with more than ten million lines these additional SLC revenues are measured at the holding company level in each step of the HCS Plan. In other words, total high cost support received by the holding company is reduced by an amount equal to the total of additional SLC revenues that the holding company could generate under the new SLC caps. For other ILECs, in Step 1 high cost support is lowered in each study area by an amount equal to the additional SLC revenues calculated on a study area basis. In Steps 2 and 3, high cost support reductions for ILECs with more than one million access lines are based on additional SLC revenues measured at the holding company level. ILECs with less than one million access lines continue to measure additional SLC revenues at the study area level throughout the HCS Plan.

Exhibit 3 provides an analysis showing the monthly high cost support replaced by available SLC increases under the first component for the first three steps of the HCS Plan. This annualized amount of high cost support that ILECs would be able to recover from SLC increases is shown on the summary page of Exhibit 1 as $1.183 billion. Exhibit 3 also displays information on the

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In re Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, 15 F.C.C.R. 12962, ¶¶. 199 & 200 n.436 (2000) (CALLS Order).

[5] SLC revenues also would replace the very small amount of LSS remaining for the ILECs with more than ten million lines, ending high cost support for these companies under the LSS fund.

[6] These increases are comparable to the most recent series of SLC cap hikes, which ended on July 1, 2003. The MAG Order adjusted SLC caps for rate-of-return ILECs from $3.50 to $5.00 on January 1, 2002; to $6.00 on July 1, 2002; and to $6.50 on July 1, 2003. The CALLS Order increased SLC caps for price cap ILECs from $3.50 to $4.35 on July 1, 2000; to $5.00 on July 1, 2001; to $6.00 on July 1, 2002; and to $6.50 on July 1, 2003. The SLC cap for multi-line business users is currently $9.20 and would be raised in Step 1 to $10.00 under the HCS Plan.

average monthly SLC increases that ILECs need to replace high cost support in the first three steps of the HCS Plan under a $3.50 monthly increase in the SLC cap. For ILECs with more than ten million lines the average monthly SLC increase needed ranges from $0.26 to $0.46. As that exhibit shows, for ILECs with less than ten million, but greater than one million access lines, two of six ILECs would require average monthly SLC increases of $3.50 to replace high cost support, with the other four ILECs requiring average monthly SLC increases of between $1.11 and $2.37. For ILECs with less than a million lines the average monthly SLC increase will be $2.89. Although consumers would see SLC increases, these increases are offset by the lowering of monthly federal universal service pass-through charges on consumer bills as universal service fund contributions are reduced under the HCS Plan. Additionally, as shown in Exhibit 3, the HCS Plan takes into account additional amounts for low income lifeline support, which would continue to act as a safety net for consumers.

B. Consolidate Affiliated Study Areas to Calculate High Cost Loop Support and Local Switching Support

The second component of the HCS Plan calls for consolidation of affiliated study areas for ILECs having at least one million access lines when calculating HCLS and LSS.[7] Study areas are consolidated at the state level in Steps 1 and 2 of the HCS Plan. Further study area consolidation at the holding company level is called for in Step 3 of the HCS Plan. It is reasonable to treat larger ILECs as combined entities under the HCLS and LSS formulas because of operating efficiencies and a reduced need for subsidies that can reasonably be expected from holding companies with more than one million access lines.[8]

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[7] In 1984 the FCC froze existing study areas. In a 2004 Order it explained that it "froze all study area boundaries effective November 15, 1984, in order to prevent Carriers from setting up high-cost exchanges within their existing service territory as separate study areas to maximize eligibility for high-cost universal service support, among other reasons." *See In re Federal-State Joint Board on Universal Service,* 19 F.C.C.R. 11538, ¶ 12 n.31 (2004). While preventing the creation of new study areas, this freeze enables holding companies to maintain numerous separate study areas as if unaffiliated. Since the HCLS and LSS formulas in the rules generally provide more generous support to smaller study areas, there is little incentive for holding companies to consolidate study areas they acquire to reflect operational efficiencies and reduce unnecessary support.

[8] Study area consolidation is solely for calculating support and would not necessitate operational or structural changes on the part of affected holding companies. Nor would it require changes to the intricate HCLS formula. *See Federal-State Joint Board on Universal Service*, 16 F.C.C.R. 11244, ¶ 13 n.19 (2001), where the Commission described, in part, the HCLS formula as follows: "See 47 C.F.R. §§ 36.601, et. seq.; *First Report and Order,* 12 FCC Rcd at 8891-92 paras 209-11... carriers with 200,000 or fewer working loops receive support

Implementation of the second component of the HCS Plan would operate to reduce HCLS for these holding companies primarily because of the reduced support percentages that apply under the HCLS formula to study areas exceeding 200,000 lines. Where an ILEC consolidated study area within a state did not exceed 200,000 lines in Steps 1 and 2 of the HCS Plan, HCLS could be lowered by applying the formula to the average unseparated loop cost of the consolidated study area.

Implementation of the second component of the HCS Plan would reduce LSS in Steps 1 and 2 and end LSS in Step 3 for ILECs with more than one million access lines because the number of access lines in the consolidated study areas exceeds the eligibility requirement of 50,000 lines. If the number of ILEC access lines remains at 50,000 lines or fewer after study area consolidation within a state in Steps 1 and 2, ILEC LSS could be reduced by the operation of a declining LSS weighting factor as the number of access lines within the combined study areas crosses specified thresholds. [9]

The HCS Plan would also change the rules governing eligibility of LSS for CETCs. Currently CETCs are not subject to the 50,000 line eligibility requirement. The HCS Plan proposes that the LSS rules be changed to disallow portable LSS to CETCs with more than 50,000 lines in a state. This is an equitable change that recognizes that CETCs generally have large service areas and construct their networks to maximize switching efficiency.

C. Capping and Transitioning Away From High Cost Support in Areas with CETC Penetration

The amount of support withdrawn in the fourth step of the HCS Plan is based on an evaluation of the development of competition after the first three steps of high cost support reform under the HCS Plan. Specifically, the HCS Plan would adjust high cost support in the fourth step based on an assessment of CETC lines to ILEC lines within a study area. If the total number of CETC lines exceeds 25% of ILEC lines, support is capped at the per-line amount at the time the assessment is made. If the total number of CETC lines exceeds 50% of ILEC lines, total support to the study area is capped. If the total number of CETC lines exceeds 75% of ILEC lines, HCS

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equal to 65 percent of the portion of their unseparated loop costs greater than 115 percent but less than or equal to 150 percent of the national average, and 75 percent of the portion of their unseparated loop costs greater than 150 percent. For carriers with over 200,000 working loops, the formula is similar, but with reduced levels of support. For example, a carrier with over 200,000 loops reaches the 75 percent support level only for costs that exceed 250 percent of the national average. The national average is calculated based on the loop costs of both rural and non-rural carriers."

[9] See 47 C.F.R. § 54.301.

is ended for both ILECs and CETCs in the study area. Based on current CETC and ILEC study area line counts and USAC Second Quarter 2008 high cost support fund size projections, implementation of the fourth step of the HCS Plan would yield additional reductions in high cost subsidies of $954 million annually. See Exhibit 1.

III. Conclusion

The HCS Plan offers a means of reducing the current unsustainable level of high cost support, while preserving support levels where they are most needed. In addition, it affects both ILECs and CETCs equitably. It is competitively and technologically neutral, and balances the preservation of reasonable levels of high cost support where most needed against the public interest benefits of growing competition. As such, it deserves full consideration by the FCC, the Joint Board and other parties in this proceeding.

The HCS Plan offers a straightforward, predictable, and equitable means of reducing excessive amounts of high cost support for ILECs and CETCs alike. As shown in Exhibit 1, telecommunications carriers will contribute $4.622 billion annually to the USF for high cost support based on USAC Second Quarter 2008 projections. Using these projections, the first three steps of the HCS Plan reduce high cost support by $2.177 billion annually or 47% and by an additional $954 million after the fourth step for a total reduction of $3.131 billion or 68%. Of this total amount, high cost support portable to CETCs falls by $785 million or about 52% after the first three steps and by $1.291 billion or 85% after the fourth step. Of the remaining $1.840 billion in ILEC high cost support reductions, small rural carrier support is reduced to a far lesser extent than for large ILECs with a million or more access lines. The share of the $1.491 billion remaining high cost support after the fourth step that is directed to small rural ILECs is $1.213 billion, an increase from 41% to 81% of all high cost support. Furthermore, ILECs and CETCs are provided with the ability under the HCS Plan to replace much of the high cost support with new service revenue as the industry transitions from burdensome and unsustainable subsidy growth toward a more realistic balance between universal service support and competition.

USF contributors are major beneficiaries of the HCS Plan. As shown in Exhibit 4, upon implementation of Step 4 of the HCS Plan, the Second Quarter 2008 Contribution Factor of 11.3% would be adjusted to 6.0%. Also, the effects on consumers from an increased SLC should be offset by reductions on consumer bills of pass-through federal universal service charges resulting from fund contributions and by additional protection for low-income consumers. The overall appeal of the HCS Plan to government is that it works largely within current FCC rules and can easily be administered; it controls growth and achieves substantial reductions in high cost support and USF contributions; and it preserves necessary support for small rural ILECs, as well as CETCs in areas without significant CETC penetration.

Sprint Nextel respectfully submits this proposal and asks the FCC to give it due consideration, including seeking comment from the public.

Exhibit 1

Sprint Nextel
May 12, 2008

High Cost Support Four-Step Plan (HCS Plan)
Data Support

Index to Data Support

Summary of HCS Plan Step 1 through Step 4 Annual Reductions

Step	ILEC HCLS Reduction Due to Consolidation	ILEC LSS Reduction Due to Consolidation	Total ILEC HCS Replaced By SLC	Total ILEC HCS Reduction	CETC HCS Reduction	Total HCS Reduction
1	$73,394,011	$32,944,975	$835,421,916	$941,760,901	$547,686,143	$1,489,447,044
2	$0	$0	$241,420,151	$241,420,151	$108,230,163	$349,650,314
3	$82,484,991	$19,970,081	$106,523,286	$208,978,358	$128,748,312	$337,726,670
4	$0	$0	$0	$448,091,165	$506,007,735	$954,098,899
Totals	$155,879,002	$52,915,056	$1,183,365,352	$1,840,250,575	$1,290,672,353	$3,130,922,927

Notes: All of the analysis contained in this HCS Plan has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.
In Step 1, some ILEC HCLS and LSS were eliminated through study area consolidation and some ILEC HCLS and LSS were replaced by SLC revenue.
In Steps 1 through 3, all ILEC HCMS, IAS, and ICLS reductions were replaced by SLC revenue.

Second Quarter 2008 USAC Projected High Cost Support

	High Cost Model Monthly Support	High Cost Loop Monthly Support	Safety Net Additive Monthly Support	Safety Valve Monthly Support	Interstate Access Monthly Support	Local Switching Monthly Support	Interstate CL Monthly Support	Total High Cost Monthly	Total High Cost Annual	Percent of Total
AT&T	$9,283,326	$0	$0	$0	$7,803,541	$0	$56,346	$17,143,213	$205,718,554	4%
Qwest	$2,044,222	$31,708	$0	$0	$3,856,674	$107,929	$0	$6,040,533	$72,486,398	2%
Verizon	$1,742,532	$76,460	$0	$0	$17,991,310	$449,510	$0	$20,259,812	$243,117,748	5%
ILECs w > 10M Lines	$13,070,080	$108,168	$0	$0	$29,651,525	$557,439	$56,346	$43,443,558	$521,322,701	11%
Century	$1,014,520	$11,387,914	$13,478	$32,007	$754,101	$1,106,782	$9,144,990	$23,453,792	$281,445,499	6%
Citizens	$0	$1,903,488	$72,968	$0	$2,681,040	$1,470,186	$1,107,064	$7,234,746	$86,816,952	2%
Embarq	$0	$1,756,714	$0	$0	$6,603,703	$226,950	$184,655	$8,772,022	$105,264,264	2%
Fairpoint	$750,270	$1,437,959	$10,361	$0	$293,949	$717,103	$1,563,821	$4,773,463	$57,281,553	1%
Puerto Rico	$0	$0	$0	$0	$0	$0	$5,694,065	$5,694,065	$68,328,780	1%
Windstream	$498,953	$1,672,601	$480,466	$0	$936,041	$510,108	$3,831,563	$7,929,732	$95,156,783	2%
ILECs w > 1M to = 10M Lines	$2,263,742	$18,158,676	$577,273	$32,007	$11,268,834	$4,031,129	$21,526,158	$57,857,819	$694,293,831	15%
ILECs w 1M Lines or Less	$56,614	$67,872,804	$1,932,121	$24,808	$423,506	$23,753,432	$63,004,424	$157,067,709	$1,884,812,514	41%
CETCs	$13,656,152	$36,990,643	$1,053,890	$28,324	$15,870,677	$11,249,415	$47,922,705	$126,771,806	$1,521,261,675	33%
Total	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721	100%

Source: USAC 2nd Quarter 2008 Filing

HCS Plan - Step 1 Reductions

	High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual	Step 1 Percent of Total	Base Percent of Total
AT&T	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	4%
Qwest	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Verizon	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	5%
ILECs w > 10M Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	11%
Century	$643,469	$8,140,232	$13,478	$32,007	$440,907	$478,438	$6,805,636	$16,554,166	$198,649,991	6%	6%
Citizens	$0	$1,723,523	$72,968	$0	$1,083,173	$487,334	$569,086	$3,936,084	$47,233,011	2%	2%
Embarq	$0	$588,962	$0	$0	$1,312,940	$122,255	$158,795	$2,182,951	$26,195,417	1%	2%
Fairpoint	$139,127	$1,369,246	$10,361	$0	$156,056	$534,277	$1,204,652	$3,413,720	$40,964,641	1%	1%
Puerto Rico	$0	$0	$0	$0	$0	$0	$4,091,813	$4,091,813	$49,101,756	2%	1%
Windstream	$0	$220,545	$480,466	$0	$328,707	$41,869	$1,352,552	$2,424,139	$29,089,666	1%	2%
ILECs w > 1M to = 10M Lines	$782,596	$12,042,508	$577,273	$32,007	$3,321,782	$1,664,173	$14,182,534	$32,602,874	$391,234,482	12%	15%
ILECs w 1M Lines or Less	$0	$67,872,804	$1,932,121	$24,808	$52,267	$23,753,432	$53,650,707	$147,286,139	$1,767,433,662	56%	41%
CETCs	$312,209	$35,064,489	$1,053,890	$28,324	$828,423	$5,460,391	$38,383,569	$81,131,294	$973,575,532	31%	33%
Total HCS Remaining	$1,094,805	$114,979,802	$3,563,284	$85,139	$4,202,472	$30,877,996	$106,216,809	$261,020,306	$3,132,243,677	100%	100%
2Q2008 HCS Base	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721		
Reduction from Base	-$27,951,784	-$8,150,489	$0	$0	-$53,012,070	-$8,713,419	-$26,292,824	-$124,120,587	-$1,489,447,044		
Percent Reduction	-96%	-7%	0%	0%	-93%	-22%	-20%	-32%	-32%		

Note: All of the analysis contained in this HCS Proposal has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.

HCS Plan - Step 2 Reductions

	High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual	Step 2 Percent of Total	Base Percent of Total
AT&T	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	4%
Qwest	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Verizon	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	5%
ILECs w > 10M Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	11%
Century	$0	$8,140,232	$13,478	$32,007	$0	$478,438	$5,088,521	$13,752,675	$165,032,099	6%	6%
Citizens	$0	$0	$72,968	$0	$0	$487,334	$0	$560,302	$6,723,628	0%	2%
Embarq	$0	$0	$0	$0	$0	$122,255	$0	$122,255	$1,467,060	0%	2%
Fairpoint	$0	$0	$10,361	$0	$0	$534,277	$0	$544,638	$6,535,661	0%	1%
Puerto Rico	$0	$0	$0	$0	$0	$0	$3,023,645	$3,023,645	$36,283,740	1%	1%
Windstream	$0	$0	$480,466	$0	$0	$41,869	$0	$522,335	$6,268,020	0%	2%
ILECs w > 1M to = 10M Lines	$0	$8,140,232	$577,273	$32,007	$0	$1,664,173	$8,112,166	$18,525,851	$222,310,208	8%	15%
ILECs w 1M Lines or Less	$0	$67,872,804	$1,932,121	$24,808	$0	$23,753,432	$47,661,651	$141,244,816	$1,694,937,786	61%	41%
CETCs	$0	$34,067,196	$1,053,890	$28,324	$0	$5,460,391	$31,502,313	$72,112,114	$865,345,369	31%	33%
Total	$0	$110,080,232	$3,563,284	$85,139	$0	$30,877,996	$87,276,129	$231,882,780	$2,782,593,363	100%	100%
2Q2008 HCS Base	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721		
Reduction from Base	-$29,046,589	-$13,050,059	$0	$0	-$57,214,542	-$8,713,419	-$45,233,504	-$153,258,113	-$1,839,097,358		
Percent Reduction	-100%	-11%	0%	0%	-100%	-22%	-34%	-40%	-40%		

Note: All of the analysis contained in this HCS Proposal has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.

HCS Plan - Step 3 Reductions

	High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual	Step 3 Percent of Total	Base Percent of Total
AT&T	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	4%
Qwest	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Verizon	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	5%
ILECs w > 10M Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	11%
										0%	
Century	$0	$1,266,482	$13,478	$32,007	$0	$0	$2,758,485	$4,070,452	$48,845,424	2%	6%
Citizens	$0	$0	$72,968	$0	$0	$0	$0	$72,968	$875,616	0%	2%
Embarq	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Fairpoint	$0	$0	$10,361	$0	$0	$0	$0	$10,361	$124,332	0%	1%
Puerto Rico	$0	$0	$0	$0	$0	$0	$1,955,477	$1,955,477	$23,465,724	1%	1%
Windstream	$0	$0	$480,466	$0	$0	$0	$0	$480,466	$5,765,592	0%	2%
ILECs w > 1M to = 10M Lines	$0	$1,266,482	$577,273	$32,007	$0	$0	$4,713,962	$6,589,724	$79,076,688	3%	15%
ILECs w 1M Lines or Less	$0	$67,872,060	$1,932,121	$24,808	$0	$23,753,432	$42,183,659	$135,766,079	$1,629,192,948	67%	41%
CETCs	$0	$29,968,758	$1,053,890	$28,324	$0	$5,164,222	$25,167,895	$61,383,088	$736,597,057	30%	33%
Total	$0	$99,107,300	$3,563,284	$85,139	$0	$28,917,654	$72,065,515	$203,738,891	$2,444,866,693	100%	100%
2Q2008 HCS Base	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721		
Reduction from Base	-$29,046,589	-$24,022,991	$0	$0	-$57,214,542	-$10,673,761	-$60,444,118	-$181,402,002	-$2,176,824,028		
Percent Reduction	-100%	-20%	0%	0%	-100%	-27%	-46%	-47%	-47%		

Note: All of the analysis contained in this HCS Proposal has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.

HCS Plan - Step 4 Reductions

	High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual	Step 4 Percent of Total	Base Percent of Total
AT&T	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	4%
Qwest	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Verizon	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	5%
ILECs w > 10M Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	11%
Century	$0	$950,776	$3,258	$32,007	$0	$0	$2,414,967	$3,401,008	$40,812,097	3%	6%
Citizens	$0	$0	$72,968	$0	$0	$0	$0	$72,968	$875,616	0%	2%
Embarq	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	2%
Fairpoint	$0	$0	$6,544	$0	$0	$0	$0	$6,544	$78,528	0%	1%
Puerto Rico	$0	$0	$0	$0	$0	$0	$0	$0	$0	0%	1%
Windstream	$0	$0	$480,466	$0	$0	$0	$0	$480,466	$5,765,592	0%	2%
ILECs w > 1M to = 10M Lines	$0	$950,776	$563,236	$32,007	$0	$0	$2,414,967	$3,960,986	$47,531,833	3%	15%
ILECs w 1M Lines or Less	$0	$50,085,113	$1,227,941	$7,170	$0	$18,175,094	$31,558,569	$101,053,887	$1,212,646,638	81%	41%
CETCs	$0	$9,728,994	$288,015	$14,006	$0	$1,979,285	$7,205,477	$19,215,777	$230,589,323	15%	33%
Total	$0	$60,764,882	$2,079,192	$53,183	$0	$20,154,379	$41,179,013	$124,230,649	$1,490,767,793	100%	100%
2Q2008 HCS Base	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721		
Reduction from Base	-$29,046,589	-$62,365,409	-$1,484,092	-$31,956	-$57,214,542	-$19,437,036	-$91,330,620	-$260,910,244	-$3,130,922,927		
Percent Reduction	-100%	-51%	-42%	-38%	-100%	-49%	-69%	-68%	-68%		

The amount of the Total High Cost Monthly shown above in study areas where total CETC lines are >25.0% to =50.0% of the ILEC's lines (capped at the current per line support amount) is $25,808,398

The amount of the Total High Cost Monthly shown above in study areas where total CETC lines are >50.0% to =75.0% of the ILEC lines (capped at the current support amount) is $23,591,710

Note: All of the analysis contained in this HCS Proposal has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.

HCS Plan Step by Step Company Comparison

		High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual
AT&T	Base	$9,283,326	$0	$0	$0	$7,803,541	$0	$56,346	$17,143,213	$205,718,554
	Step 1	$0	$0	$0	$0	$0	$0	$0	$0	$0
Qwest	Base	$2,044,222	$31,708	$0	$0	$3,856,674	$107,929	$0	$6,040,533	$72,486,398
	Step 1	$0	$0	$0	$0	$0	$0	$0	$0	$0
Verizon	Base	$1,742,532	$76,460	$0	$0	$17,991,310	$449,510	$0	$20,259,812	$243,117,748
	Step 1	$0	$0	$0	$0	$0	$0	$0	$0	$0
Century	Base	$1,014,520	$11,387,914	$13,478	$32,007	$754,101	$1,106,782	$9,144,990	$23,453,792	$281,445,499
	Step 1	$643,469	$8,140,232	$13,478	$32,007	$440,907	$478,438	$6,805,636	$16,554,166	$198,649,991
	Step 2	$0	$8,140,232	$13,478	$32,007	$0	$478,438	$5,088,521	$13,752,675	$165,032,099
	Step 3	$0	$1,266,482	$13,478	$32,007	$0	$0	$2,758,485	$4,070,452	$48,845,424
	Step 4	$0	$950,776	$3,258	$32,007	$0	$0	$2,414,967	$3,401,008	$40,812,097
Citizens	Base	$0	$1,903,488	$72,968	$0	$2,681,040	$1,470,186	$1,107,064	$7,234,746	$86,816,952
	Step 1	$0	$1,723,523	$72,968	$0	$1,083,173	$487,334	$569,086	$3,936,084	$47,233,011
	Step 2	$0	$0	$72,968	$0	$0	$487,334	$0	$560,302	$6,723,628
	Step 3	$0	$0	$72,968	$0	$0	$0	$0	$72,968	$875,616
	Step 4	$0	$0	$72,968	$0	$0	$0	$0	$72,968	$875,616
Embarq	Base	$0	$1,756,714	$0	$0	$6,603,703	$226,950	$184,655	$8,772,022	$105,264,264
	Step 1	$0	$588,962	$0	$0	$1,312,940	$122,255	$158,795	$2,182,951	$26,195,417
	Step 2	$0	$0	$0	$0	$0	$122,255	$0	$122,255	$1,467,060
	Step 3	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Step 4	$0	$0	$0	$0	$0	$0	$0	$0	$0
Fairpoint	Base	$750,270	$1,437,959	$10,361	$0	$293,949	$717,103	$1,563,821	$4,773,463	$57,281,553
	Step 1	$139,127	$1,369,246	$10,361	$0	$156,056	$534,277	$1,204,652	$3,413,720	$40,964,641
	Step 2	$0	$0	$10,361	$0	$0	$534,277	$0	$544,638	$6,535,661
	Step 3	$0	$0	$10,361	$0	$0	$0	$0	$10,361	$124,332
	Step 4	$0	$0	$6,544	$0	$0	$0	$0	$6,544	$78,528

HCS Plan Step by Step Company Comparison

		High Cost Model (HCMS) Monthly Support	High Cost Loop (HCLS) Monthly Support	Safety Net Additive (SNA) Monthly Support	Safety Valve (SV) Monthly Support	Interstate Access (IAS) Monthly Support	Local Switching (LSS) Monthly Support	Interstate CL (ICLS) Monthly Support	Total High Cost Monthly	Total High Cost Annual
Puerto Rico	Base	$0	$0	$0	$0	$0	$0	$5,694,065	$5,694,065	$68,328,780
	Step 1	$0	$0	$0	$0	$0	$0	$4,091,813	$4,091,813	$49,101,756
	Step 2	$0	$0	$0	$0	$0	$0	$3,023,645	$3,023,645	$36,283,740
	Step 3	$0	$0	$0	$0	$0	$0	$1,955,477	$1,955,477	$23,465,724
	Step 4	$0	$0	$0	$0	$0	$0	$0	$0	$0
Windstream	Base	$498,953	$1,672,601	$480,466	$0	$936,041	$510,108	$3,831,563	$7,929,732	$95,156,783
	Step 1	$0	$220,545	$480,466	$0	$328,707	$41,869	$1,352,552	$2,424,139	$29,089,666
	Step 2	$0	$0	$480,466	$0	$0	$41,869	$0	$522,335	$6,268,020
	Step 3	$0	$0	$480,466	$0	$0	$0	$0	$480,466	$5,765,592
	Step 4	$0	$0	$480,466	$0	$0	$0	$0	$480,466	$5,765,592
ILECs w < 1M L	Base	$56,614	$67,872,804	$1,932,121	$24,808	$423,506	$23,753,432	$63,004,424	$157,067,709	$1,884,812,514
	Step 1	$0	$67,872,804	$1,932,121	$24,808	$52,267	$23,753,432	$53,650,707	$147,286,139	$1,767,433,662
	Step 2	$0	$67,872,804	$1,932,121	$24,808	$0	$23,753,432	$47,661,651	$141,244,816	$1,694,937,786
	Step 3	$0	$67,872,060	$1,932,121	$24,808	$0	$23,753,432	$42,183,659	$135,766,079	$1,629,192,948
	Step 4	$0	$50,085,113	$1,227,941	$7,170	$0	$18,175,094	$31,558,569	$101,053,887	$1,212,646,638
CETCs	Base	$13,656,152	$36,990,643	$1,053,890	$28,324	$15,870,677	$11,249,415	$47,922,705	$126,771,806	$1,521,261,675
	Step 1	$312,209	$35,064,489	$1,053,890	$28,324	$828,423	$5,460,391	$38,383,569	$81,131,294	$973,575,532
	Step 2	$0	$34,067,196	$1,053,890	$28,324	$0	$5,460,391	$31,502,313	$72,112,114	$865,345,369
	Step 3	$0	$29,968,758	$1,053,890	$28,324	$0	$5,164,222	$25,167,895	$61,383,088	$736,597,057
	Step 4	$0	$9,728,994	$288,015	$14,006	$0	$1,979,285	$7,205,477	$19,215,777	$230,589,323
Total	Base	$29,046,589	$123,130,291	$3,563,284	$85,139	$57,214,542	$39,591,415	$132,509,633	$385,140,893	$4,621,690,721
	Step 1	$1,094,805	$114,979,802	$3,563,284	$85,139	$4,202,472	$30,877,996	$106,216,809	$261,020,306	$3,132,243,677
	Step 2	$0	$110,080,232	$3,563,284	$85,139	$0	$30,877,996	$87,276,129	$231,882,780	$2,782,593,363
	Step 3	$0	$99,107,300	$3,563,284	$85,139	$0	$28,917,654	$72,065,515	$203,738,891	$2,444,866,693
	Step 4	$0	$60,764,882	$2,079,192	$53,183	$0	$20,154,379	$41,179,013	$124,230,649	$1,490,767,793

Note: All of the analysis contained in this HCS Proposal has been performed on a static basis using the USAC Federal Universal Support Mechanism Fund Size Projections Appendices for the Second Quarter 2008. This analysis does not include any of the HCS administrative expenses.

HCS Plan – Supporting Data Analysis

Summary

In Step 1, **$1489 million** annually **(32%)** in HCS has been eliminated, **$835 million** of which is replaced by SLC increases of up to $1.50 per month.

In Step 2, **$350 million** annually in HCS has been eliminated, **$241 million** of which is replaced by SLC increases of up to $1.00 per month. HCS has been reduced by **$1838 million (40%)** cumulatively.

In Step 3, **$338 million** annually in HCS has been eliminated, **$107 million** of which is replaced by SLC increases of up to $1.00 per month. HCS has been reduced by **$2177 million (47%)** cumulatively.

In Step 4, **$954 million** annually in HCS has been eliminated in study areas where CETC lines exceed 75 percent of ILEC lines. The HCS has been reduced by **$3131 million (68%)** cumulatively. An additional **$593 million** annually in HCS has been capped.

HCS Plan - Step 1 Reductions

a. **$73 million** annually in HCLS has been eliminated for ILECs owned by a holding company with more than 1,000,000 total lines by combining (for the purpose of determining HCLS) all of the study areas in a state owned by the same holding company and then using the combined data to recalculate HCLS using the existing HCLS formulas. Additional reductions to HCLS from SLC increases in the amount of **$1 million** annually were included in Step 1 d.

b. **$33 million** annually in LSS has been eliminated for ILECs owned by a holding company with more than 1,000,000 total lines by combining (for the purpose of determining LSS) all of the study areas in a state owned by the same holding company and then, if the combined lines are greater than 50,000, eliminating LSS. Additional reductions to LSS from SLC increases in the amount of **$2 million** annually were included in Step 1 d as a result of eliminating all HCS for ILECs with more than 10,000,000 lines.

c. **$69 million** annually in LSS has been eliminated for CETCs either as a result of the CETC itself having more than 50,000 lines in a state or due to the effect of the Step 1 b. ILEC reductions.

d. **$516 million** annually in HCS for ILECs with more than 10,000,000 lines at the holding company level (ATT, Qwest, and Verizon) is eliminated and replaced by revenues generated from increasing SLCs by up to $1.50 per line calculated at the holding company level. SLC increases necessary to eliminate HCS are as follows:

AT&T - $.26 per line per month
Qwest - $.45 per line per month
Verizon - $.46 per line per month

e. **$319 million** annually in HCS for all other ILECs has been eliminated and replaced by revenues generated from increasing SLCs for each study area by up to $1.50 per line or the amount necessary to reduce program support to zero in that study area. Program support reductions were made in the following order: first HCMS; then IAS; then ICLS; and lastly HCLS in a study area.

f. In addition to the **$69 million** annually in LSS in Step 1 c above, another **$479 million** annually in HCS is eliminated for CETCs as a result of reductions in ILEC per-line support.

HCS Plan - Step 2 Reductions - Include Step 1 reductions and the following:

a. i) **$169 million** annually in HCS for ILECs owned by a holding company with more than 1,000,000 lines has been eliminated and replaced by the revenues generated from increasing SLCs by up to an additional $1.00 ($2.50 total) per line calculated at the holding company level and

ii) **$72 million** annually in HCS for ILECs with up to 1,000,000 lines has been eliminated and replaced by the revenues generated from increasing SLCs for each company in each study area by up to an additional $1.00 ($2.50 total) per line or the amount necessary to reduce program support to zero. Program reductions were made in the same order as in Step 1 e.

b. **$108 million** annually in HCS for CETCs has been eliminated as a result of these reductions in ILEC per-line support.

HCS Plan - Step 3 Reductions - Includes Steps 1 and 2 reductions and the following:

a. **$82 million** annually in HCLS has been eliminated for ILECs owned by a holding company with more than 1,000,000 total lines by combining (solely for the purpose of determining HCLS) all the study areas owned by the same holding company at the holding company level and then using the combined data to calculate HCLS for those ILECs using the existing HCLS formulas.

b. **$20 million** annually in LSS has been eliminated for ILECs owned by holding companies with more than 1,000,000 lines by combining (solely for the purpose of determining LSS) all of the study areas owned by the same holding company at the holding company level and eliminating the LSS for those ILECs.

c. i) **$41 million** annually in HCS for ILECs with more than 1,000,000 lines at the holding company level has been eliminated and replaced by revenues from SLC increases of an additional $1.00 ($3.50 total) per line calculated at the holding company level and

ii) **$66 million** annually in HCS for ILECs with up to 1,000,000 lines has been eliminated and replaced by revenues from SLC increases for each company in each study area by up to an additional $1.00 ($3.50 total) per line or the amount necessary to reduce program support to zero. Program reductions were made in the same order as in Step 1 e.

d. **$129 million** annually in HCS for CETCs has been eliminated as a result of reductions in ILEC per- line support.

HCS Plan - Step 4 Reductions - Includes Steps 1, 2, and 3 reductions and HCS that is ended or capped for ILEC study areas where there is CETC penetration as follows:

a. **$954 million** annually in HCS for ILECs and CETCs is eliminated in unconsolidated study areas where CETC lines are greater than 75 percent of the ILEC lines.

b. **$283 million** annually in HCS is capped in unconsolidated study areas where CETC lines are greater than 50 percent and no more than 75 percent of the ILEC lines.

c. **$310 million** annually in HCS is capped for ILECs and CETCs at current per line support in ILEC study areas where CETC lines are greater than 25 percent and no more than 50 percent of the ILEC lines.

HCS Plan - Quantification Methodology

Summary

The HCS Plan – Data Support quantifies reductions in HCS over four steps by program and by company or group of companies. It relies primarily on data from USAC's HCS fund size projections, filed with the FCC on February 1, 2008 for Second Quarter 2008. Appendix HC01 projects quarterly HCS payments for ILECs and CETCs. Appendix HC05 is the source of ILEC and CETC working loops. Appendix HC08 projects LSS payments and line counts for ILEC and CETC study areas.

Using these data sources, it was possible with certain limitations discussed below to calculate the additional SLC revenue available in each step by study area or holding company to replace HCS. The thresholds for aggregating SLC revenues and replacing HCS at the holding company level are ten million lines in Step 1 and one million lines in Step 2.

The analysis identified AT&T, Qwest and Verizon as holding companies with more than ten million ILEC lines. Century, Citizens, Embarq, Fairpoint, Puerto Rico, and Windstream are holding companies with more than one million ILEC lines.[1] After calculating the incremental revenues produced by raising SLCs to the new caps at either the holding company or study area level, the analysis applied this additional SLC revenue to replace HCS by program in the following order: first HCMS; then IAS; then ICLS; then HCLS. In addition, Step 1 applied SLC revenues to replace the small amount of HCLS and LSS remaining for ten-million line holding companies, thereby replacing all HCS for these companies.

For the purpose of recalculating HCLS and LSS, the analysis consolidated study areas in a state (Step 1) and in a holding company (Step 3) for holding companies with more than one million lines. It relied on publicly available data to recalculate the USAC projected HCLS and LSS for combined study areas, applying the formulas in FCC rules. The analysis used the recalculated amounts to adjust base HCLS and LSS amounts prior to replacing HCS with revenues from SLC increases.

As for LSS, if a one million-line or ten million line holding company had more than 50,000 lines in a state, it lost LSS in that state in Step 1 due to consolidation of study areas. It lost any remaining LSS in Step 3, since all holding companies subject to consolidation at the holding company level had at least one million lines. A CETC having more than 50,000 lines in a state lost all its LSS in that state.

[1] Lines counted toward the one million-line threshold include only ILEC lines, not CETC or wireless lines in the holding company. TDS, which owns US Cellular, has several million CETC lines, but was not included among the companies with more than one million lines because it has fewer than one million ILEC lines.

The reductions in ILEC HCS at each step had a carry-over effect on CETC support, since CETCs receive the same per-line HCS as ILECs in the ILEC study areas in which CETC lines are located. The analysis calculated CETC support in Steps 1, 2 and 3 for each HCS program.[2]

Finally, applying the Step 4 criteria to Step 3 HCS data and line counts, the analysis capped or eliminated HCS in study areas in which CETC lines exceeded the thresholds. It calculated HCS remaining for ILECs and CETCs, as well as the total amounts subject to caps.

The analysis was static in that it estimated the effects of the HCS Plan using current data and did not project changes in ILEC line counts or revenue requirements or CETC penetration over the four-step implementation period.

SLC Cap Increases and HCS Replacement

The analysis calculated the additional SLC revenues available to replace HCS in Steps 1, 2 and 3 by multiplying the increases in the residential and single-line business SLC cap in each step ($1.50, $2.50, and $3.50, respectively) by the number of total ILEC lines in each study area or holding company. Since data on the number of multi-line business lines was not available for many ILEC study areas, the analysis treated all lines as residential/single-line business. Additionally, to simplify the SLC revenue calculation, the current SLC cap of $6.50 was used as the base, even though some ILECs charge SLCs that are below the cap. Using actual SLCs, as well as line counts by customer type, would produce more accurate SLC revenue amounts. Since most of the HCS replaced by SLC increases comes from companies owned by holding companies with more than one million lines whose projected SLC increases are almost entirely below the proposed Step 3 SLC cap, the change in available revenues should be fairly small. Small ILECs generally have relatively fewer multi-line business lines and almost all do not charge residential/single-line business SLCs below the cap.

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[2] Since USAC reports HCS for each CETC at the state level, the analysis had to estimate CETC HCS at the ILEC study area level. It did so by first determining CETC line counts in each ILEC study area, using line count data from Appendices HC18, 20 and 21 for ILEC study areas owned by a holding company with more than ten million lines and Appendix HC05 for all other ILEC study areas. Next, the analysis calculated per-line ILEC support amounts for each HCS program in each ILEC study area using USAC Second Quarter 2008 projected payments and line counts. Multiplying CETC line counts by ILEC per-line support produced CETC support amounts for each ILEC study area. The analysis then determined the percentages of ILEC HCMS, IAS, ICLS and HCLS remaining in each study area or holding company in each step as compared to the USAC Second Quarter 2008 projected amounts, and adjusted the Second Quarter 2008 CETC support by the same percentages. Factors were developed to true up these estimated amounts to the overall USAC CETC HCS projections found in Appendix HC01. A different process was used to match CETC LSS to ILEC LSS. In Steps 1 and 3, the ILEC LSS reductions were calculated and summed at the state level and the percentage of ILEC LSS eliminated for that state as compared to the USAC Second Quarter 2008 projected amount was calculated. Then CETC LSS in that state was reduced by the same percentage.

Study Area Consolidation and HCLS Reductions

Step 1 combined rural study areas in a state owned by a holding company with more than one million ILEC lines, solely for the purpose of determining HCLS. Using HCLS revenue requirement data and line counts from Table 3.31 of the FCC's December 2007 Monitoring Report, the analysis first calculated HCLS at the study area level using the HCLS formulas and next aggregated HCLS revenue requirement data and line counts in a state and applied the appropriate HCLS formula to combined amounts to determine HCLS for the holding company in each state. This procedure lowers HCLS for two reasons: (1) if the combined line count of a holding company's study areas in a state exceeds 200,000 lines, HCLS is calculated using the formula in Section 36.631 of the FCC's rules that provides lower levels of support for larger ILECs; and (2) whether or not the combined line count of study areas in a state exceeded 200,000 lines, the aggregation of cost and line data tends to have a leveling effect and bring the combined study area closer to the national average loop cost, resulting in diminished HCLS payments for the holding company operations in a state.

Based on these results, the percent change in HCLS was calculated at the state level and used to adjust USAC Second Quarter 2008 HCLS projections at the study area level. The analysis did this prior to replacing HCS with Step 1 SLC increases.

Step 3 combined all rural study areas in a holding company with more than one million lines, solely for the purpose of determining HCLS. The approach used in this step was similar to the state level consolidation of Step 1, except that it produced a single reduced HCLS amount for each holding company. Again, based on these results, the percent change in HCLS was calculated at the holding company level and used to adjust USAC Second Quarter 2008 HCLS projections prior to replacing HCS with Step 3 SLC increases.

Study Area Consolidation and LSS Reductions

Step 1 combined study areas in a state owned by a holding company with more than one million ILEC lines, solely for the purpose of calculating LSS. If Step 1 consolidation brought a holding company's line count in a state above 50,000, LSS was eliminated for its operations in the state. Consolidated study areas with 50,000 lines or less could receive less total LSS in a state than the uncombined study areas received, because section 54.301 of the rules reduces the weighting factor if study area lines cross specific thresholds. The analysis accounted for this latter effect using LSS projections and line counts in the USAC Appendix HC08 and adjusting the USAC Second Quarter 2008 LSS projections by the ratio of the change in the weighting factor for each study area. As stated above, any remaining LSS for holding companies with more than one million lines was eliminated in Step 3 by consolidating study areas at the holding company level.

HCS Reductions in Areas with CETC Penetration

Step 4 eliminated all HCS remaining after Step 3 in ILEC study areas where the CETC line count was greater than 75 percent of the ILEC line count. In ILEC study areas where the CETC line count was greater than 50 percent but not more than 75 percent of the ILEC line count, the total amount of HCS available to both ILECs and CETCs was capped. The annual per-line HCS was capped in any ILEC study area where the CETC line count was greater than 25 percent but not more than 50 percent of the ILEC line count. The analysis used ILEC and CETC line counts from USAC's Second Quarter 2008 fund size projection, Appendix HC05.

The analysis calculated Step 3 HCS at the study area level for ILECs. It estimated Step 3 HCS for CETCs by dividing the ILEC Step 3 study area HCS by the ILEC study area line counts and multiplying these per-line amounts by the combined CETC line count for that ILEC study area. Factors were then applied to the CETC estimated HCS to account for the differences between the estimated CETC base HCS and the USAC projected CETC base HCS.

Exhibit 2

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HCS Plan – Step by Step Description

Step 1

A. SLC Cap Increases and HCS Replacement

1. Increase residential and single-line business SLC caps for all ILECs by $1.50, from $6.50 to $8.00 per month and multi-line business SLC caps by $.80, from $9.20 to $10.00 per month.
2. For ILECs with more than ten million lines (holding company total) replace HCS with an amount equal to the revenue generated by raising SLCs on all lines in a holding company from actual levels to the new SLC caps, or only as much as needed to replace all HCS.
3. For all other ILECs replace HCS with an amount equal to the revenue generated by raising SLCs on all lines in a study area from actual levels to the new SLC caps, or only as much as needed to replace all HCS.
4. For all ILECs first apply SLC increase by replacing HCMS; then IAS; then ICLS; then HCLS; and, then, replace LSS for ILECs with more than ten million lines.

B. Study Area Consolidation and HCLS and LSS Reductions

1. For ILECs with more than one million lines (holding company total) consolidate study areas in a state and recalculate HCLS and LSS using current formulas.
2. For CETCs with more than 50,000 lines in a state (holding company total) eliminate LSS.

Step 2

A. SLC Cap Increases and HCS Replacement

1. Increase residential and single-line business SLC caps for all ILECs by $1.00, from $8.00 to $9.00 per month.
2. For ILECs with more than one million lines (holding company total) replace HCS with an amount equal to the revenue generated by raising SLC caps by $2.50 (total of Step 1 and Step 2 SLC cap increases) on all lines in a holding company to the new SLC caps, or only as much as needed to replace all HCS.
3. For all other ILECs replace HCS by an amount equal to the revenue generated by raising SLCs on all lines in a study area to the new SLC cap, or only as much as needed to replace all HCS.
4. Replace HCS by program in the same order as in Step 1 A 4.

B. Study Area Consolidation and HCLS and LSS Reductions - No Changes Beyond Those Made in Step 1

Step 3

A. SLC Cap Increases and HCS Replacement

1. Increase residential and single-line business SLC caps for all ILECs by $1.00, from $9.00 to $10.00 per month.
2. For all ILECs replace HCS, the same as in Step 2.

B. Study Area Consolidation and HCLS and LSS Reductions

1. For ILECs with more than one million lines (holding company total) consolidate study areas in a holding company and recalculate HCLS and LSS using current formulas.

Step 4

A. HCS Reductions in Areas with CETC Penetration

1. Cap per-line HCS to an ILEC study area (unconsolidated) when CETC lines exceed 25 percent of ILEC lines in the study area.
2. Cap total HCS to an ILEC study area (unconsolidated) when CETC lines exceed 50 percent of ILEC lines in the study area.
3. Eliminate HCS to an ILEC study area (unconsolidated) when CETC lines exceed 75 percent of ILEC lines in the study area.

HCS Plan - Step by Step Matrix

Exhibit 2

Step	Res/SLB SLC Cap Increases	SLC Revenue Calculations	HCLS/LSS Calculations	Areas With CETC Penetration
1	$1.50	For ILECs With > 10M Lines, SLC Revenue Calculation Done at the Holding Company Level	For ILECs With > 1M Lines, Study Areas Consolidated at State Level for Calculating HCLS and LSS	For CETC With > 50K Lines in a State, LSS is Eliminated
2	$1.00	For ILECs With > 1M Lines, SLC Revenue Calculation Done at the Holding Company Level	Same as Step 1	Same as Step 1
3	$1.00	Same as Step 2	For ILECs With > 1M Lines, Study Areas Consolidated at Holding Company Level for Calculating HCLS and LSS	Same as Step 1
4	None	Same as Step 2	Same as Step 3	Same as Step1 Plus: 1. HCS Per Line Support Capped When CETC Lines >25, <=50% of ILEC Lines in a Study Area 2. HCS Capped When CETC Lines > 50, <=75% of ILEC Lines in a Study Area 3. HCS Eliminated When CETC Lines > 75% of ILEC Lines in a Study Area

Exhibit 3

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HCS Recovered Via SLC Increases

	Base Total High Cost Monthly	Monthly HCS Remaining After Step 4	Monthly Steps 1 & 3 HCLS Eliminated Through Consolidation	Monthly Steps 1 & 3 LSS Eliminated Through Consolidation	Monthly HCS Eliminated in Competitive Areas in Step 4	Monthly HCS Replaced Via SLC Increase (Note 1)	HCS Access Lines	Average Monthly SLC Increase (Note 2)
AT&T	$17,143,213	$0	$0	$0	$0	$17,143,213	65,669,563	$0.26
Qwest	$6,040,533	$0	$0	$107,929	$0	$5,932,604	13,066,748	$0.45
Verizon	$20,259,812	$0	$0	$270,530	$0	$19,989,282	43,506,326	$0.46
Century	$23,453,792	$3,401,008	$10,121,432	$1,106,782	$669,444	8155126	2,330,036	$3.50
Citizens	$7,234,746	$72,968	$179,965	$1,470,186	$0	$5,511,627	2,327,962	$2.37
Embarq	$8,772,022	$0	$1,167,752	$226,950	$0	$7,377,320	6,617,589	$1.11
Fairpoint	$4,773,463	$6,544	$68,713	$717,103	$3,817	$3,977,286	1,775,244	$2.24
Puerto Rico	$5,694,065	$0	$0	$0	$1,955,477	$3,738,588	1,068,168	$3.50
Windstream	$7,929,732	$480,466	$1,452,056	$510,108	$0	$5,487,102	3,139,969	$1.75
Small ILECs <$3.50	$4,929,865	$1,510,905	$0	$0	$333,143	$3,085,817	2,153,627	$1.43
Small ILECs =$3.50	$152,137,844	$99,542,982	$0	$0	$34,379,050	$18,215,813	5,204,518	$3.50
All Small ILECs	$157,067,709	$101,053,887	$0	$0	$34,712,193	$21,301,630	7,358,145	$2.89
Monthly Totals	$258,369,087	$105,014,873	$12,989,917	$4,409,588	$37,340,930	$98,613,779	146,859,750	

Note 1: The Monthly HCS Recovered Via SLC is the Monthly 2Q2008 Total Base minus the sum of the four columns in the grey area.

Note 2: The Average Monthly SLC Increase is the monthly average SLC increase over the current SLC rates. The current cap on the residential SLC is $6.50 per month.

Note 3: Small ILECs each have 1 million or less lines.

Low Income Lifeline Change Compared to HCS Change

		Step 1	Step 2	Step 3
Lifeline Annual Increase From SLC Increases	$106,561,473	$75,033,502	$93,155,719	$106,561,473
Step 4 Cumulative HCS Change	$3,130,922,927			
Step 3 Cumulative HCS Change	$2,176,824,028			
Lifeline Change/Step 4 HCS Change	3.40%			
Lifeline Change/Step 3 HCS Change	4.90%			

Exhibit 4

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EXHIBIT 4

Second Quarter 2008 Universal Service Contribution Factors

	2Q2008 Factor	2Q2008 Adjusted for Step 1 of HCS Plan	2Q2008 Adjusted for Step 2 of HCS Plan	2Q2008 Adjusted for Step 3 of HCS Plan	2Q2008 Adjusted for Step 4 of HCS Plan
1. Total Projected Program Demand and Expense ($B)	$1.907450	$1.553847	$1.470965	$1.389884	$1.151360
2. Total Projection of Industry Revenues ($B)	$18.977952	$19.186807	$19.247163	$19.273793	$19.273793
3. Adjusted Quarterly Contribution Base for Universal Service Support Mechanism ($B) ((Industry Revenues on Line 2 - Projected Program Demand and Expense on Line 1) x 99%)	$16.899797	$18.993401	$19.053235	$19.079679	$19.079916
4. Contribution Factor for Universal Service Support Mechanisms (Total Program Demand and Expense on Line 1/ Adjusted Quarterly Contribution Base on Line 3)	11.3%	8.2%	7.7%	7.3%	6.0%
5. Percent change in Contribution Factor (Step 4 vs 2Q2008)		-28%	-32%	-36%	-47%

Source of 2Q2008 Factor: FCC Public Notice DA 08-576 dated March 14, 2008